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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions.

THE business situation in the United States has improved very much in the last month, and the outlook is encouraging. It is a very great gain to have dissipated the atmosphere of pessimism which was prevalent in February, and that has been accomplished in large degree. The idea that the bottom was about to drop out of all markets, and that a grave period of unemployment and perhaps social disorder was pending, is no longer entertained. The people, north and south, east and west, have disposed of that bogie by simply continuing to buy goods at the greatest rate ever known, evidently without apprehensions of poverty or revolution. We conclude that the great body of the American people are disposed to go along in a normal way, whatever the rest of the world may do, and as their buying capacity is about equal to that of all the rest of the world put together, they can do fairly well all by themselves if they try. With strikes, revolutions, allied dissensions and all sorts of exciting news served up in the headlines daily, they have been busy welcoming home the boys from France, and incidentally and perhaps for that reason, the women have bought all of last year's high-priced dry goods remaining in the stores, and thereby put the merchants at ease. The old stocks of textile goods have been cleared out, and current demands now require current production. The whole situation in the textile industry has changed. Confidence has been restored, prices have recovered part of the midwinter decline, and the mills are resuming full time operations. The strikes have been generally settled, but in some instances the demands of wage-earners have been held in abeyance pending recovery in the industry, and there are reports that they will be renewed.

Raw cotton had a rise of about 5 cents per pound during the month, and with the price now only a little under 30 cents, it would seem that argument in favor of a reduction of this season's acreage already requires revision. Wool prices are stronger both in England and this country, and recent sales by both governments have shown that the stock on hand was passing into manufacture at a rapid rate. The goods markets are also strong.

Trade in all lines which reflect common consumption is excellent, the only light business being in the lines related to construction and investment. A symptom of free buying for family consumption is to be seen in silverware. Last year the production was 40 per cent. below normal, but manufacturers are now busy on the greatest volume of orders they have ever known. The jewelry trade in all grades is booming from the cheap goods to diamonds. Sales of diamonds are the largest ever known and at high prices. In rings and articles for the common trade, business is immense. It looks as though the return of the soldiers might be a factor here also. The June crop of weddings will be the biggest crop of the year, notwithstanding the Government's guaranty on wheat.

There is some unemployment in the large cities, particularly in the vicinity of demobilization camps, but the authorities are over their worry on this subject. As a rule the returning soldiers have found their old places ready for them, and the substitutes, including many thousands of women, are finding employment also. What trouble there is over employment is in suiting the individual applicant and the employer. There is a cry for farm labor and household help from nearly every part of the country, and there is naturally more of a disposition among employers to get rid of unsatisfactory labor than was the case when the labor shortage was acute. The indifferent and incompetent worker, whom nobody wants to keep, and who has lost the habit of steady work if he ever had it, is afloat again.

Construction Work is Light.

To sum up the situation there is a gratifying recovery of sentiment in trade circles, brought about by the sustained consumption of goods and the widespread prosperity enjoyed by the agricultural class. There is no gainsaying that the latter is the backbone of the business situation, and will be for the year to come. The farmers are the largest single group in the population, and their prosperity reacts directly upon all the towns and cities where the agricultural

interest is dominant, and extends beyond that to the manufacturing districts. The farm implement business is busy, and the textile industries feel the same stimulus. The automobile manufacturers are looking to the same quarter for much of their business.

On the other hand construction work representing capital going into new investments is light. House-building, held in check for several years, is reviving in a moderate degree, stimulated by rising rents, which are general over the country. Industrial construction is light, for one reason because there was great expansion in this line during the war, and because the investors are not as readily reconciled to high prices as merchants are. The latter ask only to be assured of stable prices for a few months, during which they will turn over their stocks, but the investor who is erecting a building or equipping a plant which is expected to earn interest on the cost for many years to come, wants to be assured of stability at least until he can write down a part of the cost out of income.

Another reason, as we have explained from time to time, is that present taxes and government loans take up the accruing new capital which would otherwise be available for new business enterprises. The growth of a country's industries, and the rapid changes in industry which in the past have distinguished this country above others, are dependent upon the constant accumulation of new capital. The new ideas which are continually born in the industrial world require that old methods and equipment shall be scrapped. In short, industrial progress is always destroying old investments and requiring new capital. If capital is not accumulated, industry must get along with its old methods.

The steel industry suffers greatly from this lack of investment enterprise. The lumber industry suffers from the same cause, although lumber in these modern days is not as intimately related with large construction work as is steel and other fireproof materials. The lumber consumption is more widely distributed, and the prosperity of the farmers and the many communities responsive to conditions in the agricultural districts will give a good volume of business to the lumber interests.

The metal industries, excepting silver, which, however, is produced chiefly as a by-product, are all depressed by this lack of investment enterprise. The copper mines are operating at not above 50 per cent. of their capacity, and the lead and zinc producers are in a similar situation.

It is unfortunate that the railroads and public utilities are in such an uncertain and impecunious state that although the public interest requires that large expenditures shall be made for their improvement and development, nobody is in position to make them. The Government Railroad Administration submitted to the last Congress a request for an appropriation of $750,000,000 to enable it to meet maturing obligations and make expenditures that were vitally required by the service, but the political controversies which largely occupy the attention of Congress prevented any action being taken. The end of the session came with the political elements deadlocked, and the Railroad Administration has been obliged to appeal to the bankers of the country to advance money for temporary necessities.

Effort to Stabilize Prices.

The above conditions, affecting investment enterprise and the state of the great transportation industry, and the unsolved problem of credits for export business, are all unfavorable to a full degree of activity in the steel industry at this time. It is undoubtedly affected also by the uncertainty as to prices which has prevailed. Nobody, of course, will buy except under absolute compulsion while official conferences are in progress over proposals to reduce prices. The War Industries Board, acting from a commendable purpose to overcome the spirit of hesitancy and uncertainty which existed, brought the iron and steel manufacturers into conference to consider what reductions might be made to encourage a resumption of buying. A scale of lower prices was agreed upon, said to be as low as could be made without reducing wages. It was officially approved, and adopted with the understanding that Government buying, including for the railroads, would proceed upon this basis. The object, as we understand, was not to fix prices permanently, but to stabilize the market temporarily under the conditions of transition now existing, and give assurance to buyers for this year.

The Railroad Administration promptly repudiated the arrangement so far as any obligation upon itself was concerned, declaring that the prices were too high. This placed the situation in a more unsettled state than it was before stabilization was attempted.

We do not believe in the artificial regulation of prices as a regular policy, but much can be said in favor of efforts to guide and stabilize prices at critical times, when the public is likely to be unduly influenced by apprehensions about the future. Extreme fluctuations do not serve the public interest as well as a more steady course, responding gradually to fundamental conditions.

Wages and Prices.

Manufacturing costs in an industry like the making of steel are not easy to determine. They probably vary widely among producers, and they vary widely with the volume of production. In the long run it is in the public

interest that competition shall have play and that the business shall go to the low-cost producers. At the present moment, however, there is another factor to be considered, and that is the wage question. If steel prices are to be fixed by competition to the finish, the wage question will be involved. Ultimately we believe that wages will have to be revised, not merely for the benefit of employers, but for the good of all industry and the entire community, that steel, which enters into all machinery and all construction, may be reduced in price. But with the cost of living as it is today this is not an opportune time to propose wage reductions. Arguments can be made for them, and a good case made out for the contention that wage-earners as a class would gain more by full employment at lower rates, but the defect in the argument is that it will not convince the wage-earners; at any rate they want their own time to make up their minds to the policy. It will not pay to force such a policy until they see that it is to their own advantage. In the new efforts to bring about more harmonious relations between employers and wage-earners the greatest emphasis is laid about the right of the latter to have a voice in determining the general policies which govern industry and affect both classes, and here is an instance in which that question arises. Would it be better for all concerned to reduce the cost of steel, including wages, in order to enlarge the output and pay in the aggregate larger actual wages, although the rate might be lower?

As soon as agricultural production is restored to normal volume over the world the cost of food and other necessaries will recede and the factor mainly responsible for the controversy will thus to a great extent disappear. This is the real basis for the argument in favor of dealing with wages and prices for the moment in a tentative manner, bridging over the time until there is less obstruction to an amicable settlement. The Railroad Administration seems to be distinctly adverse to any controversy with its own employes, although the advances granted in that quarter are less likely to be revised to correspond in a decline of the cost of living than any other advances in the entire range of industry.

Government Finance.

The Secretary of the Treasury gave an agreeable surprise to the country in asking for only $4,500,000,000 by the Victory Liberty Loan, instead of $5,000,000,000 or $6,000,000,000. That was enough to assure the announcement a good reception and to quiet the criticism of those who thought the rate should have been 5 per cent, for after all it has been the unwieldy size of the issues which has most unfavorably affected their market position. The terms are all favorably regarded. The conversion privilege, which allows the holders of either the taxable or tax-free notes to exchange them freely into the other series, gives the entire issue the benefits of either plan, and is an excellent feature.

The notes are offered in two series, those which are tax-exempt (except estate or inheritance taxes) paying 3¾ per cent, and those which are subject to income surtaxes, excess profits and war taxes (also estate and inheritance taxes) paying 4¾ per cent. Both series will be issued, either in bearer form or registered, in denominations as low as $50. The notes will be dated and draw interest from May 20, 1919, and mature on May 20, 1923. Interest will be payable semi-annually on December 15 and June 15, and the notes may be redeemed at the option of the United States on June 15 or December 15, 1922, in whole or in part at par and interest on four months' notice. These redemption provisions are calculated to help maintain the market value, and the Secretary of the Treasury is also authorized for the period of one year after the termination of the war, as fixed by the President's proclamation, to purchase the notes upon such terms and conditions as he may prescribe, up to one-twentieth of the amount issued. As a final provision to sustain the market, no over-subscription will be received. Subscriptions up to $10,000 will be received in full, but in the event of over-subscription those above $10,000 will receive an allotment in the discretion of the Secretary of the Treasury. Payments upon subscriptions will be due, 10 per cent on application, 10 per cent on July 15, 20 per cent on August 12, 20 per cent on September 9, 20 per cent on October 7, and 20 per cent on November 11, with accrued interest on deferred installments.

The selling campaign is making satisfactory progress, indicating that every district will fill its quota, and that the distribution to the public will be broader than at one time anticipated. It is highly desirable that a further expansion of bank credit on war account shall not occur. This consideration is especially urgent because the Secretary of the Treasury has definitely stated that this will be the last organized selling campaign. It is evident that a large amount of borrowing must yet be done, and that the banks will be expected to take most of it.

Future Borrowing.

The amount of Treasury certificates outstanding is now approximately $6,000,000,000, and one more offering is announced, to be dated May 1, and closed May 8. One issue, of which about $365,000,000 is outstanding will mature early in the month and be retired. The fifth loan, therefore, will fall something over $1,500,000,000 short of clearing up the certificates. The first installment of income and profits-taxes yielded less than $1,100,000,000,

and there are two more to come. On account of the short time which existed between the passage of the tax law and the date of payment for the first installment, tax-payers were permitted to make the first payment upon the basis of an estimate of profits, and Treasury officials expect that the second and third payments will largely exceed the first. The law was planned to produce $6,000,000,000, but the first payment, even allowing that it is much short of one-third, indicates that the total was over-estimated. If the total shall be $5,000,000,000, with $4,000,000,000 yet to come, which looks like a very optimistic expectation, there will be less than $2,500,000,000 in excess of the amount of certificates to be redeemed. Expenditures are still running at the rate of about $1,000,000,000 per month, but these should show a large falling off at an early day. The public has no information for an estimate upon this point, but evidently it will be necessary to issue Treasury certificates throughout the summer in considerable quantities, and by fall to adopt some means of funding them, perhaps by placing bonds on sale at Treasury offices and through the banks.

Small Bond-Holdings.

The Liberty Loan Committees throughout the country will render a great public service by exerting themselves to hold in check the efforts going on to induce the small holders of Liberty Bonds to dispose of them. The pressure of these bonds upon the market has passed the most severe stage, and the floating supply will be gradually absorbed. It is unfortunate that any subscriber should have found it necessary to sell them at a loss, and especially that people who have not been accustomed to investments of this character should have realized a loss on their first venture. The discount on the bonds has not been due to any doubt about the security, but solely to the fact that the offerings were temporarily larger than could be readily absorbed. Hereafter the offerings will be comparatively small and the demand will go on forever. Every holder should be encouraged to keep them for a premium.

During the past month the War Finance Corporation sold $200,000,000 of bonds, dated April 1, and running one year at 5 per cent. interest. These funds are to be used for the most part for loans to railroad companies to enable them to meet maturing obligations, pending further legislation for their relief.

The Government of the Philippine Islands has sold in this market $10,000,000 of its one year Treasury Certificates for exchange purposes. This action is in accordance with the authority granted in the act of Congress fixing the monetary standard for the Islands and providing for its maintenance. When the balance of payments runs against the Islands in foreign relations, the government sells its obligations abroad to create credits against which it may sell drafts, in lieu of shipping gold. This policy makes it practicable to maintain the currency of the islands, which is silver and paper, at a fixed relation to gold with a small reserve of the latter metal.

Foreign Trade and the Exchanges.

The exchange situation, or in other words the broad question of the means and cost of making remittances to the United States, is the most interesting factor in foreign trade prospects. The developments of the last month have not been of striking importance, but they are of the same character as those to which we have heretofore directed attention. Exports from this country in March were valued at $605,000,000, against $523,000,000 in March of last year. Imports in March were valued at $268,000,000, against $242,000,000 in the corresponding month last year. The trade balance in favor of this country was $337,000,000, and for the nine months since July 1 last aggregated $2,790,000,000. This trade balance, pleasing as it is, presents the greatest trade problem we have ever had to deal with. All the European exchanges, except Spanish and Swiss and Dutch are now in "favor" of the United States, as that term is commonly used. That is to say, more is owing to the United States from these countries than by it to them. In the case of Holland the exchanges are about at par, while those of Spain and Switzerland are slightly against us. We have not yet liquidated a loan negotiated in Spain last year, when we were supporting sterling there, and there is a similar reason for the situation in Switzerland. In Argentina the rate is still slightly against us, but that is regarded as temporary also, in view of world conditions.

Unfortunately, this "favorable" situation, while signifying that trade is running our way now, makes it more difficult for our foreign customers to find the means of payment, and causes the foreign governments to raise obstacles against the importation of American goods. The American Chamber of Commerce in Paris and Bernard Baruch, representing by government appointment American commercial interests, are reported in recent cable dispatches as protesting against the French embargo, but it is quite certain that France will not permit the free importation of American goods unless their payment is arranged for in some other way than by the exportation of French gold. The French franc, normally worth about 5.18 to the $1.00, is quoted at 6.07, and the Belgian franc at 6.30.

Utilizing Personal Remittances.

The American Relief Administration, headed by Mr. Hoover, which is operating with the $100,000,000 fund provided by Congress for exporting wheat to foreign countries, has de-

veloped a plan for utilizing the remittances which persons in this country desire to make to friends and relatives in eastern Europe as a means of converting the paper currencies of those countries into American funds. Under existing authority of law the Federal Reserve Board, through its department of Foreign Exchange, will take charge of all exchange transactions between the United States and the countries where the Commission is operating. Persons desiring to make remittances to Poland, Finland, Roumania, Serbia, Czecho-Slovia, Jugo-Slovia, German-Austria, Bulgaria and Turkey, will make application through local bankers as usual, but the bankers instead of doing business directly through foreign connections, as commonly, must operate through the Federal Reserve organization and the Relief Administration. The latter will thus receive funds in the United States and pay out in the above countries the local currency which it receives in payment for food supplies. The Relief Association becomes the channel through which remittances flow, and the remittances reach the persons for whom they are intended in the money of their country at current rates of exchange.

The arrangement illustrates how credits in this country are availed of in payment for our exports. In this case the credits consist of money paid in for personal remittances to friends abroad. Italy is not included in the list of countries above because Italy's imports are being handled through her own agencies, and Italian exchange is under control by the Italian Government in the same manner. The remittances of Italians in America have been the principal factor in paying for Italian purchases here, after the loans by the United States Government.

The Needs of Europe.

These remittances sent from this country, mainly by immigrants who are hard-working people of moderate means, to friends and relatives in the disturbed countries of Europe, are an important factor in relieving the distress which exists over there, but a vastly greater measure of relief is needed, and America should not be content without providing it. This country can take little credit for the gifts which represent the savings of immigrants. This is one of the great emergencies of the world's history, and the story of it will be told throughout all time. It will be to the lasting honor of America, crowning her achievements in the war with a greater glory, if this country will go to the limit of her ability not only in providing food for the starving but in helping these stricken people to start their industries and get upon their feet again. The first great want is relief for their personal necessities, but they need help to put them in the way of being self-supporting; otherwise there will be many years of prostration, with poverty, suffering, and disorder, the results of which will extend to the whole world. Considerations not only of humanity, but of self-interest should prompt this country to give all the help within its power. No part of the world can hope to have abundant prosperity when so large a part of the world is crippled and unproductive. All of these countries need not only food, but working capital, raw materials and machinery. Provided with these their recovery will be comparatively rapid, and eventually they will be able to discharge their obligations in full.

Private Credits Inadequate.

Private credit is unable to cope with this situation. The needs are on too vast a scale, and the people of this country are too far away to take a large part in it as individuals. We may ring the changes upon foreign investments and some will be made, but the total will be far below the sums needed. There is only one way in which the resources of Europe can be pledged in such manner as to promptly command credit upon a great scale, and that is through governmental agencies, the foreign national and municipal governments, and even then the results will be inadequate unless supported here by the United States government.

The situation in Europe is not an inviting one in the eyes of the individual investor. The destruction of wealth and man-power has been appalling, the countries are burdened with debts beyond any previous experience, and most serious of all the whole social and industrial organization has been unsettled to such an extent that confidence in future policies and purposes is shaken. We are not expressing our own opinions about Europe, but stating the views which naturally are current, and which will interfere with popular investment in European securities at this time.

National Credit Required.

Considerations, however, which thus affect individual investors need not and should not influence a government in the same degree. It can act upon a broader view of national duties and interests, as it did in entering the war. It was actuated in that instance by a double purpose, to wit: to play an honorable part in a world crisis, for the sake of humanity, and to protect and promote directly the interests of the United States. In the present emergency there is the humanitarian argument for aiding in the reconstruction of Europe, and it is supported by the argument that by lending our national credit for reconstruction as well as for war this country can assure prosperity at home during the period of readjustment.

The action of Congress in authorizing the War Finance Corporation to advance credit or money to the extent of one billion dollars to promote foreign trade is largely ineffective, because it requires the credits to be first granted by American exporters or bankers, who must carry the risk until the credit is finally liquidated. Individuals will not take these risks with which they are unacquainted in amounts that will accomplish the purpose in view. If, however, foreign governments with the aid of the United States government will establish these international credits the business can be done, and the benefits on the whole, both there and here, will justify the governmental aid.

Credits to Foreign Trade Helpful to Ourselves.

It is short-sighted to regard loans to be made in this country to pay for the products of this country, at high prices, and at a time when a considerable degree of idleness is threatened, as solely in the interest of the borrowers. The loans made by this government to the governments associated with it in the war were made to forward our own interests, and did forward them. And so loans made to foreign governments in time of peace to enable them to purchase products of this country which they would not otherwise be able to purchase, and which in part at least we would not otherwise dispose of or produce, would be made to advance our own interests.

The act authorizing an extension of credit by the War Finance Corporation recognizes the gains to be had by increasing our exports at this time, but it places the burden of carrying the foreign credit primarily upon the exporter. The risks to individual exporters are greater than the risks involved in transactions between governments would be, and the amount of business handled will be small compared with what it might be with the aid of government credit on both sides. The question is whether in the judgment of the country the world emergency is great enough to warrant constructive measures of the first magnitude.

British Gold Regulations.

During the war there was apparent reluctance in London to say anything about the official control over movements of gold. It was admitted that a free market did not exist, but that was treated as a tentative situation of which the less said the better. But within the last month, a definite and open policy of control over gold exports seems to have been adopted. Before the war the discount rate of the Bank of England was relied upon to control the flow of gold, but the international situation is so unsettled, the exchanges so unbalanced and the influences acting upon gold movements are so strong, that the efficacy of the old method is in doubt. Perhaps it would work, but the discount rate might have to be so high as to have a back kick of serious consequences on the London market. There is a protest against raising the interest rate on all loans as a means of protecting the gold reserve.

The theory of the latter policy is to make the terms for money so attractive in London as to check any movement of gold out of the country. To accomplish this the Bank of England in the past frequently has gone into the open market to borrow money, and throughout the war the policy was followed of paying a higher rate upon foreign deposits than upon home deposits. The clearing banks even went to the extent of paying 4½ per cent on foreign deposits while they were lending money as low as 3½. This is a striking illustration of the determination of the London bankers to maintain the pre-eminence of that money market, keeping it attractive to both lenders and borrowers. They appear to have calculated that the 4½ per cent foreign deposits were allocated to Treasury bills paying that rate or better, while the cheaper funds were applied to the choice trade acceptances for which they wished to keep London the leading market.

The policy of discrimination in favor of foreign operators in London has its drawbacks and critics. The latter have urged that British industries and traders were injured by rates made high for the purpose of holding or attracting foreign money, and despite the report of the Cunliffe Parliamentary Committee the policy has been adopted of keeping gold movements under control by the authority of the embargo. Doubtless the authority will be exercised with careful discretion, to interfere as little as possible with foreign financial operations in London, and with the purpose of preventing unnecessary importations and the flow of British capital out to investments regarded at this time as not in the public interest.

Sterling Exchange.

Sterling exchange has better than held its own during the last month, recovering to about $4.67. It is understood that much of the heavy exports of foodstuffs which have gone to England in recent months had been owned for some time, and consequently have not figured in any recent exchange situation. The recovery of the pound sterling after the drop following the unpegging of the rate has inspired considerable confidence that there will be no such decline as in some quarters, including London, had been suggested as possible. Of course there is a point at which the public will come into the market to buy sterling as an investment, the only question being as to where that point is. Some very good ob-

servers think the new gold of British production, from Australia and South Africa, will be allowed to find a free market, in which case it will naturally go to the markets where the pound sterling is below par. At present the British owners of these mines would be able, if unrestricted in the disposition of their product, to ship it to New York and sell the New York credits in London at a premium of 4 or 5 per cent. Inasmuch as gold-mining has suffered by the war more than any other industry, and production is actually falling off in consequence, there is a strong argument in favor of releasing the industry from control.

Probability of Gold Imports.

It is not to be supposed that this country will go to the extent of declining to receive gold in exchange for goods, or of imposing a charge upon it as has been done by Spain and Sweden. Gold is not yet out of favor with people who have goods to sell, but more is not needed in our monetary system at this time, and its acquisition would be considered undesirable.

The use of gold is for bank reserves, the reserves are sufficient for the present volume of credit, and we certainly do not require an expansion of credit in peace times beyond what has taken place in war times. As government borrowing comes to an end the war paper in the banks should be gradually paid off and retired, and unless business is driven at the same high pace maintained in war time the volume of private borrowing will decline. Even if trade is up to the most sanguine hopes it hardly will be under the war time pressure. Bankers as a rule will prefer to get out of the Federal Reserve Banks and keep out save for seasonal or other temporary requirements, and we believe this is the proper view to take. The proper function of the reserve banks is not to furnish a new supply of credit to be used all the time, but to provide a reserve of credit, always available. If this is true the percentage of gold reserves will rise by the reduction of liabilities, and additions to the former will be unnecessary and superfluous. Importations of gold would be additions of idle wealth which would do more good elsewhere.

That, however, is the most favorable view of importations. Experience has shown that superfluous bank reserves do not remain idle indefinitely. They have a way of insinuating themselves into use. In the first place they make money cheap, reducing the rate of interest. This is peculiarly true of the United States, because in no other country is there such unrestrained competition in the banking business. The business is carried on under such a burden of expense that there is pressure to keep well loaned up, and as accumulations occur borrowers are encouraged to use them. At this time the high level of prices is regarded with misgiving, and tends to hold enterprise in check, but the public gets used to new conditions and callous to old warnings, and gradually succumbs to the allurements of cheap money.

Danger of Inflation.

The conditions for inaugurating a boom are present. The present high prices of farm products mean prosperity, not only to the farmers, but to the towns and cities which are closely related to the agricultural districts, and may give a stimulus to speculation in lands and various enterprises. The symptoms of such a movement have been visible, in spite of all the restrictions placed upon the money market in behalf of government loans.

The stock market is very sensitive to the influence of cheap money. Already million share days are in fashion again, in anticipation of easier money, and it is a rule that when a good market develops for stocks and bonds a good business springs up in creating a new supply. Enterprise is stimulated, and soon everybody is happy in the midst of prosperity and quite oblivious to the level of prices and all warnings that may be offered.

The reader may think all this is just what is wanted in the present juncture, and that if gold imports will do it the sooner they come the better. But gold imports are not required for a healthy readjustment. Money will naturally become cheaper through the elimination of government borrowing and a normal reaction will follow. Additions to our gold reserves are being made now by the production of American mines, and further additions by importations would either be unused, or if used produce an unneeded and undesirable stimulus. With more than our normal share of the world's gold, the tendency must be, when its influence comes into play, to have a higher price level than other countries, thus promoting imports and making exports more difficult. The trade position of the country would be improved by getting rid of some of the gold now in our possession, and having a gradual and uniform reduction of costs and prices.

The Permanent Level of Prices.

Our regular readers are aware that we have at no time predicted an early return to the pre-war level of prices. When the January slump was on, and the prevalent talk was that grain, provisions, cotton goods and other commodities were headed for lower prices, we expressed the opinion that food prices would advance again when the task of feeding Europe was begun, and that with food prices on a high level, wages would have to stay there, costs would remain up and that radical price reductions could not be made.

We are not prepared, however, to accept the doctrine that the present price-level is a permanent one. It must not be forgotten that many features of the present situation are abnormal. It is not to be supposed that the present state of turmoil will always exist in Europe or that Russia, Rumania and Hungary have ceased forever to export foodstuffs. Industry has not been resumed in Europe; a large percentage of the population is idle or engaged in simply getting ready for regular production. They are waiting for repairs to be made and for raw materials to be had. Sooner or later these people will be producing for the market, and when they do the prices of many goods will fall. When Europe becomes more nearly self-supporting in food stuffs, agricultural products will come down, and since the cost of these and other necessaries are the basis of all industrial costs the effects will be widespread. Making full allowance for all other influences which will tend to maintain high costs, we do not believe that farm products will stay at war prices permanently, or that all other prices will stay up when farm products have declined.

If this view is correct, then while it is a mistake on the one hand to be lacking in courage to go ahead with the business of supplying current needs, it is not a time to welcome a boom upon expanded credits. This credit inflation which prevails over the world will not be reduced at once, but the tendency will be to a reduction. The efforts being made everywhere to increase wages and reduce working hours will have an influence against price-reductions, but the tendency will be for prices to work lower, and it will be safer and better to have them gradually do so. There are many unadjusted equities in these new relations, many forgotten and overlooked individuals who have been passed by in the new readjustments of pay. At least a partial return to the old status will help to equalize conditions, while an expansion of credit and rise of prices beyond the war levels would inevitably lead to a disastrous reaction. The credit convulsions which have followed upon war-periods of expansion have not come at the close of the wars, but after the credit created during the war had been diverted to peace-time speculation.

British Industry.

In England the national genius for compromise and practical adjustment has triumphed in the grave crisis presented by the demands of the triple alliance, composed of miners, railway employes and freight handlers. A strike by these organizations would have paralyzed business of all kinds. The terms of the settlement, especially with the miners, are viewed with much misgiving, as to the effects upon the other industries and the export trade, but it was conceded to be better to try operations under large concessions than to have a suspension. The results, whatever they may be, will tell their own story and be more conclusive than the arguments of either side. It is conceded that living conditions in some of the mining districts have been such as ought not to exist anywhere, and now it is likely that a more careful study of the situation will be made than ever has been made heretofore, with a view to reconciling the rightful demands of the miners for a decent living with the needs of all British industry for cheap power.

The miners appear, from this distance, to have fared best in the settlement, obtaining not only a two shillings per day wage increase with the war advances made permanent, but an agreement for a 7-hour day after July next, and a tentative promise, subject to tradé conditions, of a reduction to 6 hours on July 1, 1920. The freight handlers got a 44-hour week without reduction of pay, and the railway employes got the 8-hour day with the war wages made permanent. According to American standards railway wages were very low before the war and the advances, although greater relatively than here, do not bring them up to American pay. The *London Times* states that the average pay of all railway employes before the war was about £70, or $350, per year, and will now be about £170, or $850, per year. The average in the United States is now about $1,500 per year.

Recommendations of National Conference.

In addition to arranging for the settlement with the three great unions, the National Industrial Conference which met upon the invitation of the Government in February, set up a Provisional Joint Committee, comprising 30 representative employers and 30 representative trade unionists, to consider the whole subject of hours, wages, unemployment, and co-operation between employers and wage-earners. This committee has submitted a unanimous report, the recommendations of which are summarized by the *London Times* as follows:

Hours.—The legislative establishment of a maximum normal working week of 48 hours for all employed persons, subject to variation in either direction by agreement confirmed by an Order of the Government.

Wages.—The establishment by law of minimum time-rates of wages of universal applicability, the rates to be fixed by a joint commission appointed under the Minimum Wage Statute.

The extension and speeding-up of trade boards. The continuance for a further six months from May 21 of the Wages (Temporary Regulation) Act. An inquiry by the Interim Court of Arbitration under that Act into the future treatment of war advances, including the 12½ per cent. bonus.

Unemployment.—Systematic short-time workers to be organized by industrial councils or other joint representative bodies. Restriction of overtime in periods of depression. Adjustment of Government and municipal contracts to fluctuating labor demands. Immediate execution of a comprehensive housing programme. State development of affores-

tation and other new industries. More adequate provision for maintenance during unemployment and under-employment.

National Industrial Council.—The creation of a permanent council of 400 members, elected in equal numbers by organized employers and work-people, with a standing Committee of 50 members, to supplement and co-ordinate existing machinery for dealing with industrial questions and to be recognized by the Government as the official consultative authority on industrial relations."

The Prime Minister, Lloyd-George has indicated the willingness of the government to accept this program, so far as the government's cooperation is required.

Other Wage Increases.

Wage increases have been general, and in other industries wages appear to be nearer the American standard. At the annual meeting of shareholders of the British Gas-Light Company, last month, the Chairman said:

"The other anxiety is the future cost of labor. In October last gas workers were granted an advance of 3s. 6d. per week, and in February a further advance of 5s., which was in addition to a previous bonus of 12½ per cent. The average wage of a stoker at Hull in March, 1914, was £2 4s. 4d. per week; at the present moment it is £4 4s. 5d., or at the rate of £219 9s. 8d. per annum."

The public utilities there, as in the United States, are all asking permission to charge higher rates in order to meet their expenses. The railways are running behind at the rate of $500,000,000 per year. A bill is pending in Parliament for the creation of a Ministry of Ways and Communications to take over the railways, canals and highways.

The situation in the steel industry is indicated by the following clipping from the *London Times,* in which British prices are converted into American money at $5 to the pound sterling:

BIRMINGHAM, April 3.—Civil trade is slowly returning, but it is retarded by existing conditions. An advance of 10 per cent. on puddling and forge and mill wages will take effect as from Monday next. Producers, who are not yet at liberty to fix their own prices, contend that the present maxima are insufficient to cover this new liability. They maintain that the recent concession of $7.20 per ton on selling prices has been absorbed in the extra cost entailed in working the eight-hour shift system. The bar mills are busy at the $100 basis for marked bars, and $88.60 for second-class bars. Steel is plentiful, but the competition has not brought prices down below the maximum permitted. Further increases in the price of pig iron are believed to be imminent. It is stated that an advance of $6.60 per ton has been sanctioned on forge and foundry grades, to take effect from May 1, when the subsidies are to be withdrawn, but makers regard this as inadequate and are claiming an addition of $10. The advance of $2.64 per ton in cold blast pig iron brings the price up to $52. The sheet mills are a little better employed, but pending an improvement in the export trade no marked expansion of business is probable. Galvanized sheets are quoted $140 to $145.

These prices are much above current prices in the United States, and if they are maintained it is difficult to see how British iron and steel products can be sold in outside markets.

Revolutionary Price Changes.

These wage increases together with reduction of hours of labor amount to a revolution in industrial conditions in England. Proprietors are accepting them because the demands for them are so general and imperative that refusal would mean social anarchy, and they feel that there is nothing to do but consent to a trial and demonstration. Then, too, all classes learned something during the war about the possibility of increasing production. They have obtained a clearer grasp than they ever had before of the great principle, which has been demonstrated in the leading works of England and this country, that it is not the wage-rate per day or per week that counts, but the rate per unit of product. They hope to obtain a higher efficiency than ever was realized in the past.

Whether the workers generally recognize the relation of increased production to their own welfare, and how the real value of the concessions they have won depends upon it, remains to be seen. Many of the leaders do, but it is too much to expect of all the workers, and therein is the weakness of the movement.

The arguments all carry the idea that the concessions are to be gained at the expense of the employers, but the wage advances during the war were far beyond what could be absorbed by the profits of employers. They were passed on to consumers so rapidly that it was difficult to tell whether wages or prices were advancing most rapidly. Labor leaders have generally insisted that the wage advances were no more than compensatory for the higher cost of living, and in many lines of industry unquestionably this was true. But if this has been the case in the past, what reason is there to expect that these new wage increases and shortened hours will improve the condition of the workers? The situation becomes in reality a struggle between the groups in various industries to see which will get the most at the expense of the others. Not that this is the purpose or understanding of the contestants. They all make a general demand on society, or aim their declarations at the well-to-do or employing class.

A Plausible Appeal.

As an example of the claims made by every group in its own behalf, the following declaration in behalf of the cotton-growers is taken from an article recently published in advocacy of the proposed restriction of the cotton crop:

Those who believe that the price of cotton is going to return to the old levels have the conventional view of the privileged classes of the world whose concept of life has been utterly condemned and placed beyond the pale by the moral judgment of mankind. A feeling still lingers with many of this class that they are of the elect, and are, therefore, entitled to some advantage over ordinary human beings in the race of life. Hence it is not strange that they should fail to read aright the signs of the times and to realize that, even in this

free country of ours, the divine rights of the great mass of mankind have been reclaimed by the new epoch from the realm of mere academics and made a practical and potential factor in the every-day life of the world.

Better homes, better clothes, better food and more leisure for wholesome recreation mean a higher scale of living for the cotton laborer, for which the consuming world will have to pay in the future. It will take prices well above any that prevailed before the war to do this. Should the consuming world refuse to pay the price of this living for any considerable time, then in a few years the supply of cotton will be reduced to a dangerous minimum. For the cotton laborer in the future will certainly abandon the cotton field before he will return to the slavery of the old days.

On the whole, this change in living conditions can be said to be wholly constructive and in accordance with the formulas of eternal justice. For it is clear that as the cotton laborer answered the call of his country to help make the world safe for democracy, his country is due him such a living as will make his democracy safe for the world.

We do not print this with the intention of taking exception either to the aspirations which it voices or the policy of restricting the cotton crop. If the cotton farmers can get more for their labor by growing other products, that of course is what they should do. We only call attention to the fact that this argument is in almost the same language as those that are offered in favor of raising the pay of milk producers, coal miners, railway employes, cotton mill operatives, garment makers, freight handlers, and every group of workers all the way round the circle of industries.

Each group seems to make a case that standing by itself is convincing, but starting with raw cotton and following it along over the railways and through the cotton mills and garment shops, and adding all the increases that are asked until the cotton goods are sold to the consumer, we are forced to recognize at last that the great body of consumers consists of the working people whose condition it is everywhere desirable to improve. In other words, the additions to the pay of the workers are made at the expense of the workers as consumers, and when all industries have had corresponding increases, their relative positions will be practically what they were before.

Advantages of Some Industries Over Others.

Of course in the actual struggle some will be more successful than others, but not because they are more deserving. There are industries which hold a more commanding position than others, by reason of being able to act more suddenly and with a greater degree of co-operation. The railroad employes are an example of this. By reason of their ability to suddenly stop all commerce, shut off fuel and food supplies, and bring community life to a standstill, they have an advantage over the workers of other groups. Their work is not harder or more essential than that of the farmer, but by their ability to act in concert they have greater power to fix the compensation which all the rest of the community shall pay them. The increase of pay which has been allotted to railway men in the last two years is perhaps no more than enough to compensate for the increased cost of farm products, but when the latter go down will the farmer get a corresponding reduction in the charges of railway service?

We make no suggestion that any group of workers is more grasping than others, and do not think so. We are only pointing out that the prevailing movement over the world to raise wages and shorten the work-day, all in the name of a new order of society, is a very superficial and fruitless movement, if that is all there is of it. If they are setting up these higher wages and shorter work days as new standards to be achieved by more harmonious and efficient methods of production, well and good, but unless production is correspondingly increased, there will be confusion, disorganization, friction, loss of enterprise and efficiency, and general disappointment.

The Service of Capital.

Of course what is aimed at in this general uprush of wages is to absorb and distribute for immediate consumption the profits of capital. This is impossible so long as private enterprise is the mainspring of business, and if private enterprise was eliminated the loss by inertia and waste would be far greater than the gains. Moreover, the profits of business are what carry on development.

The great oversight of those who are critical of the existing order is in not recognizing that the profits of capital when turned back into industry redound to the benefit of labor. They increase the demand for labor, which is the surest guaranty of employment and rising wages, and they increase the supply of all goods on the market, which is the surest guaranty of better conditions for consumers. The wage-earners gain at both ends, for they constitute the great body of consumers.

An interesting story of business development was told in the announcement last month by Endicott, Johnson & Co., shoe manufacturers, that they are converting their partnership into a corporation, and establishing a profit-sharing arrangement for interesting their employes in the business. Mr. Endicott began his business career 45 years ago with a cash capital of $2,800. The firm of Endicott, Johnson & Co. was formed in 1895, Mr. Johnson having been superintendent of the shoe factory, and rising to that position from the bench. Five other employes were later taken into the firm. The corporation now organized is issuing preferred stock to the amount of $15,000,000 and common stock to the amount of $14,000,000, which about represents the value of the assets that have been accumulated in the business, beginning with $2,800. Here is an opportunity for critics to point to the iniquity of the capitalistic system, under which such accumulations are made. But

where are those accumulations? Of what do they consist? The report says that the new corporation will own plants at Endicott and Johnson City, New York, employing 12,000 persons, and making 75,000 pairs of shoes per day. It operates its own tanneries, and with one exception is not only the largest shoe-manufacturing company, but the largest tanning company in the world.

All of this has been accomplished in the face of the freest kind of competition, for there are shoe-making centers in all parts of the country. The shoe business is not one of assured profits; thousands of shoe-makers have failed during the career of this firm, and not another one has duplicated this record. Endicott, Johnson & Co. have not made their capital by charging higher prices than others, and the offer they are now making to their employes is an assurance that they have paid as good wages as anybody. By good management they have made money, and every increase in their capital has meant more people on their payrolls and more shoes going out to the market. The factories and tanneries which they are operating are not mere agencies for making private profits, they are part of the organization for supplying the wants of the community. Such establishments must be created by somebody to serve the public needs. If the government should take over the shoe business, it would have to make a similar investment and provide the capital either by taxation or by charging a profit on the shoes, and if industry generally was taken over of course there would be no private property to tax. Endicott, Johnson & Co. therefore have performed a necessary social function in manufacturing shoes and in charging a sufficient profit to provide the capital for the business. Their record carries the presumption that they have managed the task more skillfully than it would have been managed as a government industry. This capital had to be raised if the public was to have shoes by factory production, and how could the public have provided itself with shoes more advantageously? The fact is, that this capital was not accumulated at the expense of the public, but by means of the economies which this enterprising firm introduced into the process of making shoes.

Adopts Profit-Sharing.

Now the firm is making a change in the business. The announcement reads as follows:

"To our Workers: Due to our mutual efforts, our leather and shoe business has grown from $600,000 to $75,000,000 annually, with possibilities for future development so great that we feel the business would be strengthened and the interests of all better guaranteed under the form of a corporation than a private ownership. Invested capital and management of this business is entitled to a fair return for its risk and efforts. Labor is entitled to fair wages, good working conditions, reasonable hours, and fair treatment. Accordingly we announce the following plan: Each year after the 7 per cent. dividend has been paid on the preferred stock, and 10 per cent. set apart on the common stock, the balance of profits, if any, shall be split 50-50 between the workers and the owners of the common stock. Every worker who has been in the employ of the company throughout the entire year will share and share alike, which means that the highest paid and lowest paid worker, and all between, receive the same amount either in common stock or cash at the option of the Directors. Divisions made once a year. Plan commences as of Jan. 1, 1919. First division as soon as possible after Jan. 1, 1920."

The statement, which was signed by H. B. Endicott and George F. Johnson, said further that employes would be permitted to buy preferred stock if they desired without affecting their share in the profits.

This plan should arouse a new interest among the employes in the business and cause them to give their best thought and efforts to achieve a yet greater success. That no doubt is the intention, and if it does not accomplish this it will be a failure, even from the standpoint of labor. Heretofore the surplus profits have been put back into the business, thus creating constantly a permanent demand for more labor and increasing the supply of shoes. Hereafter a part of those profits are to be taken out of the business and disbursed among 12,000 employes. It is now up to these employes to make such use of this disbursement, or render such additional service for it, as will keep up the accumulation of productive capital which has been going on under the old system. The benefits of these accumulations have been diffused throughout the community by the increasing demand for labor and increasing production of a useful article; hereafter the gains will be in larger degree concentrated upon the employes of this company.

Two Methods of Distribution.

There is much to be said from the standpoint of social justice in favor of the old distribution, putting all profits back into enlarging the business. The distribution, with all industry working upon the plan, is more general. Under this plan of dividing profits with employes, the individuals who are so fortunate as to work for Endicott, Johnson & Co. are favored above those who work for less progressive and less prosperous concerns, although the latter may work just as faithfully. As a matter of abstract justice there is no reason why an employe of Endicott, Johnson & Co. should get higher pay for doing the same work than an employe of another shoe factory which perhaps has no profits to divide. The plan therefore makes for inequality in the compensation of workers throughout industry, and for a concentrated distribution within organizations, instead of a broad distribution.

The justification for the plan, which is being widely adopted, is to be found in the ex-

pectation that it will promote contentment and good will and greater production in the establishments adopting it. The employes will see the results of their efforts coming to themselves, whereas they do not see or comprehend the broad distribution which takes place through the development of industry, and which carries the benefits of industrial progress to even the humblest, unorganized members of the community.

The case of Endicott, Johnson & Co., although one distinguished by unusual success, is typical of the capitalistic system so-called. The accumulation of capital in industry and the use of that capital in supplying the comforts of life to the population are therein displayed. The greater the profits are, the more rapid is the progress of industry and the greater the distribution of comforts throughout the community. It is the multiplied use of machine power, and the constant improvement of methods, with the scrapping of superseded equipment, which is the greatest agency for improving the condition of the people. Compare the Endicott-Johnson organization with its associated tanneries and up-to-date equipment, with the old shoe-maker who two generations ago went with his kit from house to house to make the family foot-wear!

Chilean Commission.

The United States is honored at this time by the presence of a Financial Commission representing the government of Chile, one of the most advanced and enterprising of the South American republics. The members of the Commission are the Hon. Elidoro Yanez, formerly Premier and now a member of the Senate; Hon. Juan Enrique Torcona, formerly Minister of Foreign Affairs, and Mr. Augusto Villaneuva, President of the Bank of Chile.

The Chilean Government is contemplating expenditures upon the state railways, for improvements, equipment, etc., of an estimated cost of about $30,000,000, to be covered by a foreign loan. It is estimated that about 60 per cent. of the loan will be expended for equipment and materials, probably in the country where the loan is effected, the remainder being required for direct disbursement for labor at home. Chile has prospered during the war, the nitrate and copper industries being greatly stimulated and the prices of all exports very much increased. At present the country is going through a period of reaction similar to that experienced elsewhere, but the resources of the country are such that its regular advancement is assured. The nitrates, which constitute one conspicuous source of wealth, are worth far more to the world to restore the land-values which have been diminished during the war than for high explosive shells, and there will probably be a phenomenal demand for them as soon as shipping conditions permit.

Communications between Chile and the United States are vastly improved by the Panama Canal, 18 days or less being sufficient now for the trip.

Position of Silver.

The Treasury statement of monetary circulation indicates that approximately 200,000,000 of silver dollars have been melted since the Pitman act inaugurating this policy went into effect about a year ago. This bullion has gone to India, and rendered a great service in meeting the trade balance which has existed in favor of that country, and in enabling the government there to supply the increased demands of the population for silver coin in circulation. The high prices of war time and the great demand for Indian products increased the trade balance, and the high prices and internal trade activity also increased the requirements for money in circulation. The British campaign in Mesapotamia, carried on mainly with Indian troops, also made a demand for silver rupees which have entered into circulation in that region. The rupee is reaching a wide circulation outside of India. It has been for years in use on the East Coast of Africa and has lately been made a legal tender in Egypt.

This expanding demand drew down the rupee reserves of the Indian government in the early part of 1918 until the situation was serious. The amount of paper rupees in circulation was increased, but paper money has never been popular in the interior districts, and the attempt to force the circulation placed the notes at a discount. At this point the Pitman act was passed authorizing the Secretary of the Treasury to dispose of silver dollars held in the Treasury reserves up to 350,000,000 at $1.00 per ounce, a corresponding amount of silver certificates to be withdrawn from circulation and replaced with Federal reserve notes of small denominations. This made available a stock of silver bullion which could have been procured nowhere else, and relieved the Indian situation.

The action practically fixed the price of silver at a minimum of $1.00 per ounce, and the Treasury later fixed the price of bar silver at $1.01½ and took the entire export trade under control. The production of silver in the United States last year was about 70,000,000 ounces, and imports, mainly from Mexico and Canada 52,000,000 ounces. The Government restricted the consumption of silverware manufacturers to 75 per cent. of the normal business, but in fact their business fell to about 40 per cent. of normal. In the early part of the year considerable silver went to China but was resold to India, where the demand was insatiable.

The Indian demand has lessened perceptibly since the armistice was signed, for several reasons. Victory in the war has had an effect upon hoarding, business activity has slackened, and exports have fallen off. Crops are not so good this year and the government has put an

embargo upon exports of wheat. Referring to the silver crisis of last year, Sir James Meston, the Indian Minister of Finance, has said recently:

"We are on permanently unsafe ground until the country abandons the habit of hoarding money in unsettled times. The Government cannot possibly continue meeting the insane demand for silver rupees without seriously affecting the world price of silver. During the last four years 1,200 millions of rupees have been drawn from the mints, and unless the hoarded coins are restored we may be forced to reconsider the whole basis of the currency exchange policy."

While the urgent demand for silver is over, importations will have to continue in large amounts, particularly if shipments of gold to India, which were large before the war, are not resumed. As gold will be in strong demand elsewhere, it seems probable that the burden of settlement with India will remain upon silver.

Whether this government will continue to dispose of silver dollars up to the full amount fixed by the Pitman act, so long as the price of silver remains above $1.00 per ounce, has not been stated. There is no reason why it should not do so. The Federal Reserve notes are as satisfactory as silver certificates in circulation, and the silver dollars were dead capital in the Treasury vaults. Moreover, as the Pitman act contemplates that the Secretary of the Treasury shall replace the silver dollars whenever silver bullion can be purchased at $1.00 per ounce, the melting of dollars creates a deferred demand for silver at that price which will stabilize the market until the meltings are made good. It would seem to be good policy therefore to dispose of the full $350,000,000 if the market will take that amount at the price.

The production of silver in this country is mainly as a by-product from copper and lead ores, and as the demand for these metals has fallen off the production of silver has declined also. The production of the world in 1913 was about 224,000,000 ounces and last year probably about 180,000,000 ounces. The production of Mexico may be increased, but that of Canada has latterly been declining. On the whole the outlook for the silver producers is more encouraging than for many years. The price can hardly fall below $1.00 per ounce for a good many years, and there is a fair probability that with a removal of control it may go higher.

The Economic Position of France.

No nation has appreciated more than our own the tremendous sacrifices of France in the war. Without counting the cost, she threw all her human and material resources into the conflict. No nation has had so heavy a burden to bear during the entire course of history, and no nation has won such imperishable glory.

France is now facing the great and inevitable problems of reconstruction. With her enormous war deficit rendered more burdensome by the forced unproductiveness, during a considerable period to come, of her devastated regions, with the need of importing great quantities of raw materials to supply her factories and permit a resumption of her industrial life, with great sums owing to England, the United States and other countries, which have made it necessary for her to restrict her imports, with exchange rates heavily against her, with the necessity of increasing largely her internal taxation, with the need of increasing in great measure her agricultural production in order to diminish her imports of foodstuffs, the leaders of France are engaged, with an energy and courage characteristic of the race, in bringing forward proposals for a solution of these momentous problems. Monsieur Klotz, the minister of finance, recently proposed an increased tax on capital and capital-earnings, but the sentiment in France was so unanimous that any considerable increase in this kind of taxation would result in discouraging capital and hence would defeat its own ends, that the proposal was quickly dropped.

It is realized in France, that although that country will be the largest beneficiary of the indemnity to be paid by Germany, this will be insufficient to solve her heavy financial problems. It is urged that new methods of financing must be resorted to. Monsieur Raoul Peret, head of the budget committee, has recommended an inter-allied loan, either issuing a French loan which will be taken up under the auspices of the Governments of allied and friendly nations and placed in their respective countries; or else the issue of a general inter-allied loan, to be guaranteed jointly by all the Entente powers. M. Peret has not yet entered into the working details of either of his proposals. We do not understand that he contemplates a redistribution of the debt for ultimate payment, but that the allied nations shall help support the credit of France until she accomplishes an economic recovery.

France's Foreign Investments.

The war has changed France from a creditor to a debtor nation, at least so far as present income is concerned. At the outbreak of the war, the loans of France to foreign governments and to industrial enterprises outside of France were $8,000,000,000. A very large proportion of this was loaned to Russia, Turkey, Bulgaria, etc., and is yielding no revenue to France today. On the other hand from August 1, 1914, to March 31, 1919, the French government voted credits of $34,300,000,000 for military and civil purposes. Today France is obliged to raise not less than $3,500,000,000 to pay her annual expenses. The total estimated debt of France is roughly $40,000,000,000 or about $1,000 per capita, and the

estimated total wealth of France is somewhat less than $1,500 per capita.

France has two pressing needs: The importation of raw materials and the importation of machinery. These must be brought into the country at once in order to permit her industries to resume their earning capacity. There is also need for a rapid rehabilitation of her carriers, both railroads and canals, as well as the restoration of an effective merchant marine. In a word France is faced with the urgent need of national production on a large scale as the solution of her financial and industrial situation.

From 1914 to 1919 there was a deficit in railroad earnings of $800,000,000 for which the government, by the terms of a contract, is obliged to reimburse the railroads.

The eight-hour day has recently been adopted by law in France and this will tend, especially during the period of readjustment, to a diminished production of service in some fields.

In 1913 the exports of France amounted to 81% of her imports. In 1918 the exports were 20% of the imports, that is imports of about $4,000,000,000 for 1918 against exports of about $800,000,000. It should be said that the rise in prices is an important factor in these figures.

The great textile centres of northern France, such as Lille, Tourcoing, Roubaix, were stripped of their machinery by the Germans, and the equipment in other branches, throughout the devastated region, was carried away or destroyed. Part of the German indemnity will probably be paid in machinery.

How France May be Aided.

All allied and friendly nations wish to aid France in solving her problems. England recently sent an important commercial mission to France, which included representatives of the Federation of British Industries, who held conferences with important French mercantile and manufacturing bodies. This British Federation has 17,000 members, representing the chief industries of the United Kingdom and many billions of pounds sterling of invested capital, and enjoys the co-operation of the English Government. The questions taken up concerned especially the part which England could play not only in reconstructing the devastated regions of northern and eastern France, but in combining with the industrial leaders of France for joint action in foreign trade.

The French import restrictions were a heavy blow to English commerce, as well as to our own, and protests have been made. These restrictions will only be maintained until means of making payment for purchases are found, because France must import machinery and raw materials to make her own industries yield profits. England has declined for the time being to increase her credits to France, but this action probably is only temporary. The English manufacturers talk of granting French buyers, on direct commercial transactions, terms of a year and a half or two years. Enlightened opinion in France is opposed to the method of alternately imposing and abolishing restrictions on imports, because of the inevitable unsettlement in industry which must follow.

United States and France.

The United States is in a position to aid France in several important respects. First, capital, both by the action of the government and by the action of individual groups. The proceeds of these loans would be delivered in merchandise. The United States is in a position to supply France with the machinery which she will require immediately for her devastated provinces, as well as machinery for the development of her productive capacity generally, and especially as regards her water powers.

The United States is also in a position to aid France by increasing her imports of those goods in which France is unequaled by any other country, such as fine gowns, laces, hats, and those objects of taste known as articles de Paris.

We cannot expect to send our raw materials and machinery to France without creating the means for their payment by in turn taking the products which France is in a position to send us. In this way only can exchange be stabilized so as to permit the normal flow of merchandise between the two countries.

Mr. Melville E. Stone, General Manager of the Associated Press, who has returned recently from France, stated the case succinctly when he said:

"I have read a good deal of criticism in the United States over the action of France in declining to import American machinery and certain other products. They cannot do it now. It would ruin their exchanges. The cost of living would go up so high that they could not stand it. The only hope, the one solution for the condition of France, lies in long-time credit by American manufacturers."

The Bond Market.

During the first week of the month bond prices receded slightly and Liberty Bonds were traded in large volume. The second week evidenced a broader market with steady prices.

Upon the announcement of the terms of the Victory Loan the bond market registered a general advance and trading continued active until the opening of the Loan campaign on the 21st.

There have been very few general offerings, and the trading therefore has been confined to the seasoned issues, many of which have been selling on an attractive basis. The most noteworthy offering was $200,000,000 War Finance Corporation 5% Gold Notes due April 1, 1920,

at par. The War Finance Corporation was created by an Act of Congress approved April 5, 1918, the United States Government being the sole stockholder and the Secretary of the Treasury, Chairman. It was created to provide further for national defense and security and for the purpose of assisting in the prosecution of the war, to provide credits for industries and enterprises in the United States necessary or contributory to the prosecution of the war, and for other purposes. The $200,000,000 bonds were offered through the Federal Reserve Banks and their sub-agent banks throughout the United States, and the bond houses reported substantial subscriptions.

The municipal market has been very active and dealers in general report a good demand for tax exempt issues. Many large issues met with a prompt subscription and prices have held fairly steady. In view of the large amount of municipal work planned throughout the country we will no doubt see an increasing volume of municipal offerings for some time to come. The State of Pennsylvania is contemplating a $50,000,000 road issue, which is of particular interest, as this state has not offered its securities for sale for many years past. Michigan is also contemplating a $50,000,000 issue for road purposes.

It is reported that there has been a large buying of Liberty bonds by institutions, corporations, and particularly insurance companies, the latter being allowed to carry these bonds at par.

Foreign government issues have been comparatively inactive, but prices during the month recovered somewhat from the figures reached following the disturbance in the foreign exchange situation. In this connection it is interesting to note the formation of the Foreign Bond and Share Corporation, which was recently organized to finance public and private enterprises in Central and South America, the Far East, Europe and other parts of the world. It is understood that this company will sell to American investors either debentures of the Corporation secured by the deposit of securities of foreign companies or will dispose of the foreign securities themselves. This corporation has a subscribed capital and surplus of $3,000,000 and the organizers include a number of banks and private bankers throughout the United States. This apparently is the first American investment trust, and its plan of operation is modeled somewhat along the lines of the European trusts which have been in operation for some years past in Scotland, England, Belgium and Switzerland.

The most important general offerings during the month included:

$2,285,000 Buffalo, Rochester & Pittsburgh Ry. 4½% Bonds, due May 1, 1957, at 87¾ and interest, yielding 5.25%.

500,000 Lebanon Valley Iron & Steel Co. 6% Bonds, due March 1, 1939, at 97 and interest, yielding over 6.25%.

1,000,000 Ludlum Steel Co., Watervliet, N. Y., 7% Notes, due 1920-1929 at prices to yield 6.50% to 7.50%.

500,000 Middle West Utilities Company 7% Notes, due March 1, 1924, at 97 and interest, yielding nearly 7¾%.

2,500,000 Oklahoma Gas & Electric Company 7% Notes, due April 1, 1920, at 99½ and interest, yielding over 7.50%.

1,500,000 Standard Gas & Electric Company 6% Bonds, due December 1, 1926, at 96 and interest, yielding about 6.60%.

1,200,000 Trumbull Public Service Co. 7% Notes, due November 1, 1921, at 98¼ and interest, yielding 7¾%.

Municipal and government offerings included:

$1,500,000 Allegheny County, Pa., 4½% Bonds on a 4.40% basis.

1,700,000 Bethlehem, Pa., Water Works 4½% Bonds on a 4.40% basis.

600,000 Buncombe County, North Carolina, 5% Bonds on a 5% basis.

303,000 Flint, Michigan, 5% Bonds on a 4.70% basis.

205,000 Flint Union School District, Mich., 5% Bonds on a 4.75% basis.

235,000 Great Falls, Montana, Sewer 5¼% Bonds on a 4.85% basis.

500,000 Mt. Iron, Minn., School District 6% Bonds on a 5¼% basis.

500,000 Nashville, Tenn., 5% Bonds on a 4.80% basis.

10,000,000 Philippine Government 4% Notes on a 4.50% basis.

1,134,000 Pittsburgh, Pa., Funding 4½% Bonds on a 4.35% basis.

500,000 Port of Seattle, Washington, 5% Bonds on a 5% basis.

1,000,000 Salt Lake City, Utah, Improvement 5% Bonds on a 4.70% basis.

750,000 Salt Lake County, Utah, Road 5% Bonds on a 4.80% basis.

3,000,000 Saskatchewan 5% Debentures on a 5.30% basis.

215,000 Sioux City, Iowa, School District 5% Bonds on a 4.70% basis.

868,000 State of South Dakota 5% Bonds on a 4.70% basis.

500,000 Toledo School District, Ohio, 5% Bonds on a 4.70% basis.

500,000 Toledo School District, Ohio, 5¼% Bonds on a 4.75% basis.

1,250,000 Twin Falls County, Idaho, 5½% Bonds on a 5.20% basis.

200,000,000 War Finance Corporation 5% Bonds on a 5% basis.

300,000 West Allis, Wisconsin, School 5% Bonds on a 4.75% basis.

The combined average of forty active issues, as reported by the Wall Street Journal on April 29 was 84.43, which compares with 85.04 for March 29 and 83.61 for April 29, 1918.

National City Bank in Cuba.

Two new branches of this Bank have been opened during the past month, to-wit, at Guantanamo and Manzanillo, and another branch in the city of Havana will be opened in a few days. The latter will make seven branches opened on the island since January 1st last with a total of ten in the island.

THE NATIONAL CITY COMPANY
NATIONAL CITY BANK BUILDING
NEW YORK

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